



**FINANCIAL  
REVIEW**



## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Samuel H. Kress Foundation

We have audited the accompanying financial statements of the Samuel H. Kress Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Samuel H. Kress Foundation as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

A handwritten signature in cursive script that reads "Owen J. Flanagan + Co." The signature is written in black ink and is positioned above the date.

October 12, 2016

## STATEMENTS OF FINANCIAL POSITION

## EXHIBIT A

Samuel H. Kress Foundation  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Investments	\$ 77,093,008	\$ 90,202,343
Operating cash	539,789	224,878
Accrued interest and dividends receivable	11,813	9,790
Prepaid expenses and other assets	47,684	31,085
Property and equipment, net of accumulated depreciation	1,139,362	1,256,026
<b>Total Assets</b>	<b>\$ 78,831,656</b>	<b>\$ 91,724,122</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Grants payable	\$ 4,937,113	\$ 6,646,696
Accounts payable and accrued expenses	118,263	135,716
Excise tax payable	—	56,279
Deferred Federal excise tax payable	7,328	186,284
<b>Total Liabilities</b>	<b>5,062,704</b>	<b>7,024,975</b>
Unrestricted Net Assets	73,768,952	84,699,147
<b>Total Liabilities and Net Assets</b>	<b>\$ 78,831,656</b>	<b>\$ 91,724,122</b>

See Accompanying Notes to Financial Statements.

## STATEMENTS OF ACTIVITIES

## EXHIBIT B

Samuel H. Kress Foundation  
Years Ended June 30, 2016 and 2015

	2016	2015
<b>Revenue</b>		
Interest	\$ 509	\$ 159
Dividends	1,189,650	1,309,503
	1,190,159	1,309,662
Less direct investment expenses:		
Investment management and custodian fees	567,387	603,774
Federal excise taxes	19,505	147,962
	586,892	751,736
<b>Net Investment Revenue</b>	<b>603,267</b>	<b>557,926</b>
Contributions	33,500	—
<b>Grants and Expenses</b>		
Grants authorized	1,986,967	2,966,550
Foundation directed projects	19,986	20,000
Grants management and administrative	1,371,969	1,413,841
<b>Total Grants and Expenses</b>	<b>3,378,922</b>	<b>4,400,391</b>
Change in Net Assets before Gain (Loss) on Investments	(2,742,155)	(3,842,465)
Net Gain (Loss) on Investments (net of deferred Federal excise taxes)	(8,188,040)	2,126,398
<b>CHANGE IN NET ASSETS FOR YEAR</b>	<b>(10,930,195)</b>	<b>(1,716,067)</b>
Net Assets, beginning of year	84,699,147	86,415,214
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 73,768,952</b>	<b>\$ 84,699,147</b>

See Accompanying Notes to Financial Statements.



## STATEMENTS OF CASH FLOWS

## EXHIBIT C

Samuel H. Kress Foundation  
Years Ended June 30, 2016 and 2015

	2016	2015
<b>Cash Flows Provided (Used)</b>		
From operating activities:		
Change in Net Assets for Year	\$ (10,930,195)	\$ (1,716,067)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
<i>Depreciation</i>	116,664	116,977
<i>Net realized gain on investments</i>	(580,831)	(7,003,487)
<i>Change in unrealized appreciation</i>	8,947,827	4,918,458
(Increase) decrease in assets:		
<i>Accrued interest and dividends receivable</i>	(2,023)	1,098
<i>Prepaid expenses and other assets</i>	(16,599)	11,537
Increase (decrease) in liabilities:		
<i>Grants payable</i>	(1,709,583)	(1,188,021)
<i>Accounts payable and accrued expenses</i>	(17,453)	24,914
<i>Excise tax payable</i>	(56,279)	39,962
<i>Deferred Federal excise tax</i>	(178,956)	(41,369)
<b>Net Cash Used Operating Activities</b>	<b>(4,427,428)</b>	<b>(4,835,998)</b>
From Investing Activities:		
Proceeds from sale of investments	20,546,649	44,626,335
Purchases of investments	(15,804,310)	(39,793,908)
Additions to property and equipment	—	(24,669)
<b>Net Cash Provided by Investing Activities</b>	<b>4,742,339</b>	<b>4,807,758</b>
Net increase (decrease) in cash for year	314,911	(28,240)
Cash, Beginning of Year	224,878	253,118
<b>Cash, End of Year</b>	<b>\$ 539,789</b>	<b>\$ 224,878</b>
Supplemental Disclosure:		
<b>Cash paid for Federal Excise Tax</b>	<b>\$ 95,000</b>	<b>\$ 108,000</b>

See Accompanying Notes to Financial Statements.

Samuel H. Kress Foundation  
June 30, 2016

**NOTE 1**  
**Organization**

The Samuel H. Kress Foundation (“the Foundation”) was established on March 6, 1929 by Samuel H. Kress. The Foundation is incorporated in the State of New York for the purpose of promoting the moral, physical and mental well-being and progress of the human race, using or creating such means or agencies as from time to time the Trustees shall deem expedient to accomplish such purpose.

**NOTE 2**  
**Summary of Significant  
Accounting Policies**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

*Operating Cash*

For purposes of cash flows, cash consists of cash maintained in checking accounts.

*Fair Value Measurements*

The Foundation follows US GAAP (Generally Accepted Accounting Principles) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

During fiscal year 2016, the Foundation adopted new US GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share or its equivalent as a practical expedient. Adoption of the guidance was applied retrospectively and had no effect on the carrying value of such investments.

**NOTE 2**  
**(continued)**

*Investment Valuation and Investment Income Recognition*

Investments are carried at fair value. The fair value of alternative investments has been estimated using the NAV as reported by the management of the respective alternative investment fund. US GAAP guidance provides for the use of the NAV as a “Practical Expedient” for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation’s interest. Purchases and sales of securities are recorded on a settlement date basis. Interest and dividend income is recorded when received. Realized and unrealized gains and losses are included in the statement of activities.

*Investment Risks and Uncertainties*

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as limited partnership, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, may not be currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in active markets may be based on historical costs, appraisals, a review of the investees’ financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

*Property and Equipment*

Property and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, building—35 years, building fixtures—5 to 15 years, office furniture and equipment—5 to 10 years.

*Grants*

The Foundation records grants as expenses and liabilities at the time each grant is authorized by the Trustees and the recipient has been notified or the program is announced to the public. Grants are payable to the grantee according to the terms established by the Trustees and may be subject to routine performance requirements by the grantee.

*Use of Estimates*

The preparation of financial statements in conformity with accounting



**NOTE 2**  
**(continued)**

principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates. The estimates are not material in the aggregate.

*Subsequent Events*

In connection with the preparation of the financial statements the Foundation evaluated subsequent events after the statement of financial position date of June 30, 2016 through October 12, 2016, which was the date the financial statements were available to be issued.

*Comparative Financial Statements*

Certain reclassifications have been made to the June 30, 2015 financial statement presentation to correspond to the current fiscal year's presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

**NOTE 3**

**Investments**

A summary of investments is as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Short-term cash investments	\$ 3,365,829	\$ 3,365,829	\$ 2,891,941	\$ 2,891,941
Common stock				
Financials	3,716,009	3,710,946	3,717,595	4,127,967
Information technology	3,481,269	4,095,306	4,039,179	5,034,320
Healthcare	2,027,192	2,040,209	2,240,915	2,947,035
Consumer discretionary	1,665,722	1,545,121	2,390,072	2,616,955
Other	4,469,266	4,223,102	3,861,673	3,858,726
Small capital equity funds	2,131,560	2,522,324	1,905,573	2,708,445
Large capital equity funds	6,195,249	7,381,958	6,510,161	8,466,697
International equity funds	15,113,851	14,994,124	16,024,831	18,451,345
International bond funds	4,298,129	3,944,078	4,258,510	3,664,183
Fixed income funds	2,070,727	2,086,615	3,284,737	3,275,425
Emerging market funds	5,288,931	5,317,439	6,281,380	5,918,841
Hedge funds	11,923,385	12,004,705	12,500,000	14,377,418
Special situation funds	10,838,683	9,720,420	11,000,000	11,881,470
	76,585,802	76,952,176	80,906,567	90,220,768
Net receivable for pending trades	140,832	140,832	(18,425)	(18,425)
	<b>\$76,726,634</b>	<b>\$ 77,093,008</b>	<b>\$ 80,888,142</b>	<b>\$ 90,202,343</b>

**NOTE 3**  
**(continued)**

The following are major categories of investments measured at estimated fair value as of June 30:

				2016
Description	Quoted prices in	Investments	Valued Using	Total
	Active Markets for Identical Assets			
	Level I			
Short-term cash investments	\$ 3,506,661	\$ —	\$ 3,506,661	
Common stock	15,614,684	—	15,614,684	
Small capital equity funds	2,522,324	—	2,522,324	
Large capital equity funds	7,381,958	—	7,381,958	
International equity funds	—	14,994,124	14,994,124	
International bond funds	—	3,944,078	3,944,078	
Fixed income funds	2,086,615	—	2,086,615	
Emerging market funds	2,550,379	2,767,060	5,317,439	
Hedge funds	—	12,004,705	12,004,705	
Special situation funds	—	9,720,420	9,720,420	
	<b>\$ 33,662,621</b>	<b>\$ 43,430,387</b>	<b>\$ 77,093,008</b>	

				2015
Description	Quoted prices in	Investments	Valued Using	Total
	Active Markets for Identical Assets			
	Level I			
Short-term cash investments	\$ 2,873,516	\$ —	\$ 2,873,516	
Common stock	18,585,003	—	18,585,003	
Small capital equity funds	2,708,445	—	2,708,445	
Large capital equity funds	8,466,697	—	8,466,697	
International equity funds	—	18,451,345	18,451,345	
International bond funds	—	3,664,183	3,664,183	
Fixed income funds	3,275,425	—	3,275,425	
Emerging market funds	5,918,841	—	5,918,841	
Hedge funds	—	14,377,418	14,377,418	
Special situation funds	—	11,881,470	11,881,470	
	<b>\$ 41,827,927</b>	<b>\$ 48,374,416</b>	<b>\$ 90,202,343</b>	

Information regarding the liquidity of alternative investments valued at the NAV per share or equivalent at June 30, 2016 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
International equity funds (a)	\$ 14,994,124	—	Monthly	10 days
International bond fund (b)	3,944,078	—	Monthly	10 days
Emerging Markets fund (c)	2,767,060	—	Monthly	30 days
Hedge funds (d)	8,230,631	—	Annually	45–90 days
Hedge funds (d)	3,774,074	—	Not Eligible	1–2 year lockup
Special situation funds (e)	7,096,826	—	Quarterly	90–180 days
Special situation funds (e)	<u>2,623,594</u>	—	Not Eligible	3 year lockup
	<b><u>\$ 43,430,387</u></b>			

(a) International equity funds consists of two investments which focus on long-term growth through investing in diversified portfolios of equity securities of companies outside the United States.

(b) International bond fund consists of one investment which focuses on achieving favorable returns from a globally diversified portfolio of debt or debt-like securities.

(c) Emerging markets fund consists of one fund focused on achieving long-term capital appreciation by investing in companies that are located in emerging market economies.

(d) Hedge funds consists of seven investments which all seek to preserve and grow capital through different combinations of long and short investments in different foreign and domestic equity sectors. One of these funds is not eligible for redemption until 2018.

(e) Special situations consists of three funds which seek to invest in undervalued companies that may be overlooked or misunderstood, in order to generate favorable, high returns. One of the funds is not eligible for redemption for 3 years.

**NOTE 4**  
**Net Gain (Loss)**  
**on Investments**

The following is a summary of the net gain (loss) on investments:

	<b>2016</b>	<b>2015</b>
Realized gains on sale of investments	\$ 580,831	\$ 7,003,487
Net change in unrealized appreciation	(8,947,827)	(4,918,458)
Deferred Federal excise tax	178,956	41,369
<b>Net Gain (Loss) on Investments</b>	<b>\$(8,188,040)</b>	<b>\$ 2,126,398</b>

**NOTE 5**  
**Property and**  
**Equipment**

Property and equipment consists of the following:

	<b>2016</b>	<b>2015</b>
Land	\$ 500,000	\$ 500,000
Building	2,804,558	2,804,558
Furniture, fixtures, and equipment	758,415	838,195
	4,062,973	4,142,753
Less: Accumulated depreciation	2,923,611	2,886,727
<b>Net Property and Equipment</b>	<b>\$ 1,139,362</b>	<b>\$ 1,256,026</b>

Depreciation expense for 2016 and 2015 was \$116,664 and \$116,977, respectively.

**NOTE 6**  
**Grants Payable**

A reconciliation of grants payable is as follows:

	<b>2016</b>	<b>2015</b>
Grants payable, July 1	\$ 6,646,696	\$ 7,834,717
Grants approved	1,781,289	2,740,452
Grants paid, net of refunds of \$60,778 and \$40,693 in fiscal year 2016 and 2015, respectively	(3,696,550)	(4,154,275)
Change in discount to present value	205,678	225,802
<b>Grants payable, June 30</b>	<b>\$ 4,937,113</b>	<b>\$ 6,646,696</b>

The Foundation operates on a five year grant cycle. The majority of grants paid are on grant approvals made during fiscal year 2014. These grants will be paid through the year ended June 30, 2019.

**NOTE 6**  
*(continued)*

Grants payable as of June 30, 2016 are discounted to present value using a 5% rate and are expected to be paid over the next three years as follows:

2017	\$ 2,171,635
2018	1,579,385
2019	<u>1,390,585</u>
	5,141,605
Discount	<u>(204,492)</u>
	<b><u>\$4,937,113</u></b>

**NOTE 7**  
**Retirement Plan  
and Commitments**

The Foundation maintains a deferred annuity retirement plan under Section 403(b) of the Internal Revenue Code ("IRC") for all eligible employees. Under this plan, the Foundation contributes 10% of each employee's salary annually. The expense for the retirement plan for the years ended June 30, 2016 and 2015 totaled \$56,181 and \$55,285, respectively.

The Foundation has a separate retirement plan under Section 457(b) of the IRC, which limits participation in the plan to only management. The President contributes to this plan and there are no matching provisions.

**NOTE 8**  
**Taxes**

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as a "private foundation." The Foundation is subject to an excise tax on net investment income at either a 1% or 2% rate depending on the amount of qualifying distributions. For 2016 and 2015 the Foundation's rate was 2%, respectively.

Deferred Federal excise tax on unrealized appreciation of investments is provided at the 2% tax rate since the qualification for the 1% tax rate is not determinable until the year in which gains are realized.

Deferred Federal excise tax recovery of \$178,956 and \$41,369 has been recorded for fiscal years ending June 30, 2016 and 2015, respectively.

**NOTE 9**  
**Concentration of Risk**

During the years ended June 30, 2016 and 2015, the Foundation had cash in banks exceeding federally insured limits. The Foundation manages this risk by using only large, established financial institutions.